

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 QUITO 002333

SIPDIS

SENSITIVE

DEPT FOR WHA/AND
DEPT FOR EB/IFD/OMA
TREASURY FOR G. SIGMORELLI

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ENRG](#) [EC](#)

SUBJECT: ECUADOR'S ECONOMIC PROGRAM

Sensitive but Unclassified.

1. (SBU) Summary: Minister of Economy and Finances Mauricio Yopez told Ambassador on August 23 that the GOE had covered its financing needs for 2004 and is now planning for 2005. The GOE would carry out significant reforms this fall, including ending the subsidy of household gas and a reform of the electric sector. Ecuador would, however, need International Financial Institution (IFI) assistance next year, and hoped for U.S. support for an IMF "comfort letter," after the reforms were carried out, to allow the IDB and the IBRD to disburse funds. Yopez said he would be in Washington the first week of September, and asked for help setting up appointments at State and Treasury. End Summary.

Financing 2004

2. (U) At his request, Yopez met with Ambassador to discuss the Occidental Petroleum case (septel) and the GOE's economic program. Yopez started by stating that the GOE has covered its financing gap for 2004. To a great extent, the gap has been covered by using resources in the petroleum fund (FEIREP, by its Spanish acronym) to buy back debt from the Social Security Fund, and then placing debt back into Social Security from the central government. However, this operation has not substantially affected debt maturing in 2005, making that a difficult year for Ecuador.

Three Major Reforms

3. (U) Yopez noted that an IMF team was presently in Quito reviewing Ecuador's plans, and particularly its 2005 budget. He had proposed to the Fund three major reforms for this fall. First, as part of the budget, oil revenues would be re-categorized and treated as investment income which should be re-invested, rather than current revenue to be put into current expenditures. He characterized this change as a back-door way of breaking some of the current pre-assignment of revenues and giving the GOE more budget flexibility.

4. (U) Second, Yopez said the GOE would raise gas prices in November. With petroleum prices as high as they were, the gas subsidy would otherwise cost the GOE more than \$300 million, and the budget would be impossible finance. He said that President Gutierrez was fully behind this proposal, which has always been considered politically impossible. He would announce the gas price on one day, Yopez said, and Gutierrez would announce a package of social measures the next day to alleviate the burden on the poor. Ambassador offered to coordinate, and suggested that an announcement of already planned USG assistance (such as already planned Medretes) might be made simultaneously to help soften the blow and support the government.

5. (U) Finally, the GOE would propose electric sector reform geared to encourage private investment in generation. This reform was already with the President and would be sent to Congress within days, he expected.

Support from the IFIs Needed

6. (SBU) Between the elimination of the gas subsidy and continued high oil prices, Yopez said, the GOE would be within reach of filling the financing gap for 2005. However, it would need support from the IFIs to make it the last few meters. The GOE was not receiving IFI budget support this year, and was making substantial payments on its IFI debt. Net, Ecuador would retire some \$400 million of IFI debt in 2004. The Ministry of Finance had reviewed all planned borrowing from the Institutions for the coming years and cut it back to a bare minimum. Any project which did not demonstrate clear and substantial returns was being rejected. However, some budget support would be necessary.

Comfort From the IMF Sought

17. (SBU) Of course, in order to get support from the IFI's some kind of arrangement would have to be reached with the IMF. The GOE did not need and was not seeking funding from the IMF. It understood, as well, that the Fund would be reluctant to sign another agreement with the GOE until Ecuador was able to show that it is capable of carrying out significant reforms. However, Yepez said he hoped the IMF could issue a comfort letter to the Banks toward the end of this year on the basis of a sound fiscal plan, passage of a significant electric sector reform, and the elimination of the gas subsidy. Discussions with the IDB suggested that it would release some \$100 million on the basis of such a letter. Ecuador would approach the IBRD for a similar amount. With this funding, Ecuador could make its payments in 2005.

18. (U) Yepez said he intended to travel to Washington the first week of September, and asked Ambassador to help set up appointments with officials in the Departments of State and Treasury. He said that September 3 would be ideal for appointments, but he would also be available on September 7, if necessary.

Action Request

19. (U) Request State and Treasury schedule meetings at an appropriate level for Yepez.
KENNEY